



Tronox: EPA files Manville suit in New Jersey; ghost of Solutia could spook Anadarko, sources say

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A lawsuit filed by the EPA against Tronox seeks to recoup USD 280m of cleanup costs from the titanium dioxide (TiO₂) producer, according to a complaint filed with the US District Court of New Jersey. Tronox already faces suits in four other states and claims for damages in the hundreds of millions of dollars, reports Debtwire.

The complaint – alleging that a Somerville, New Jersey wood-treatment plant caused groundwater contamination – was filed after Tronox and the EPA failed to reach a settlement during a tolling period that expired 29 August. The USD 280m damages figure is up from the previous USD 244m government estimate listed in Tronox's regulatory filings.

"We currently believe that claims asserted in these lawsuits are without substantial merit and we will vigorously defend them, except where reasonable resolutions can be achieved," said a spokesperson for Tronox. "In addition, we currently believe that the ultimate resolution of this litigation is not likely to have a material adverse effect on the company."

As the drumbeat of bankruptcy rumors surrounding Tronox picks up tempo, the New Jersey lawsuit cuts to the heart of predecessor liabilities that could be put to Anadarko Petroleum in Chapter 11, multiple buyside, sellside and advisory sources noted.

The company's USD 350m 9.5% senior notes last traded at 44 yesterday, down from 48 on 5 September, according to TRACE. Its USD 200m Libor+ 175bps term loan A due 2011 was quoted today 90.17-91.83 with a spread to maturity of Libor+ 645bps, down from 92-95 in late August, according to Markit.

Anadarko inherited ties to Tronox in 2006 when it purchased the TiO₂ maker's former parent company, Kerr McGee. That acquisition put Anadarko on the hook for a Master Separation Agreement (MSA) negotiated by Kerr McGee that provides Tronox with a USD 100m reserve to cover environmental remediation costs, as reported previously. Anadarko has hired financial advisor Perella Weinberg to address its liability to Tronox.

Market participants have speculated that Anadarko could be incentivized to keep Tronox solvent by ponying up more cash because an insolvent Tronox could expose Anadarko to environmental claims exceeding USD 100m. But historical precedent will give the petrochemical giant pause for thought before it decides how to address Tronox's situation.

The potential for a stand-off between Anadarko and Tronox draws clear parallels to the bankruptcy of Solutia, a film and chemical maker formerly owned by another petrochemical titan, Monsanto. In that case, Monsanto — also advised by Perella Weinberg — committed to a USD 550m pre-bankruptcy settlement on behalf of Solutia in August 2003, hoping to keep its former subsidiary out of Chapter 11.

Nonetheless, Solutia filed for bankruptcy that December, and subsequently came back to Monsanto for more indemnification money, noted two buysiders and a sellside analyst.

"For parent companies, that was the USD 500m lesson," said a buysider. "I don't think we'd see a

parent make that same mistake again, because for Monsanto, they didn't get the closure they were looking for." Tronox has tapped the same Rothschild/ Kirkland & Ellis advisory team employed by Solutia.

Regardless of Tronox's environmental baggage, unresolved environmental claims, tightening covenants, an ongoing earnings decline and an ABN Amro-backed USD 75m AR facility that expires on 24 September still threaten to push Tronox into a default, noted multiple buy-side and sell-side sources.

In addition to the Somerville claim, Tronox is battling a USD 128m federal lawsuit in New Mexico and state claims in Avoca, Pennsylvania, Columbus, Mississippi, and Texarkana, Texas.

A toxic pollution tort case in Pennsylvania involves roughly 4,000 plaintiffs, some of whom have brought wrongful death actions. The case has been in binding arbitration since 2007, according to documents from the Luzerne County Court of Common Pleas and SEC filings.

According to sources familiar with the matter, roughly 3,000 of the plaintiffs are seeking annual medical monitoring damages that could total an aggregate of USD 40m. The approximately 1,000 other disease claimants could argue for an USD 500,000 of treatment damages each, or an aggregate award of USD 500m, the sources said.

The Mississippi case filed in Columbus Circuit Court seeks USD 100m in toxic tort damages, according to Stephen Jamison, the pastor at plaintiff Marantha Faith Center. "We're just waiting for a court date right now," Jamison said. "We believe Kerr McGee created Tronox as a dumping ground for all its environmental liabilities. That's why we're going after Tronox and Anadarko."

A spokesperson for Anadarko said "Anadarko remains ready and willing to honor its obligations under the terms of the MSA." The spokesperson further maintained that "Anadarko is not the parent company of Tronox," but would not comment as to whether Anadarko is considering providing relief beyond the MSA. To date Tronox "has sought reimbursement for approximately USD 4m," under the MSA, he added.

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